

**LUTHER AREA PUBLIC LIBRARY**

**LUTHER, MICHIGAN**

**MARCH 31, 2008**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

MARCH 31, 2008

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-vi
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund	
Balance Sheet	3
Reconciliation of the Balance Sheet of the General Fund to Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5-6
Reconciliation of the Statement of Revenues, Expenditures and Changes In	
Fund Balance of the General Fund to the Statement of Activities	7
Notes to Financial Statements	8-13
<b>Required Supplementary Information</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	14-15

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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PHONE: 231-775-9789 FAX: 231-775-9749

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October 23, 2008

### INDEPENDENT AUDITORS' REPORT

To the Library Board  
Luther Area Public Library  
Lake County  
Luther, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Luther Area Public Library, Lake County, Luther, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Luther Area Public Library, Lake County, Luther, Michigan, as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through vi and budgetary comparison information on pages 14-15 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Luther Area Public Library, Lake County, Luther, Michigan's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008

The Luther Area Public Library, a Public Library located in Lake County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Luther Area Public Library's administration's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

**A. Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

**B. Government-Wide Financial Statements**

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

**C. Summary of Net Assets**

The following schedule summarizes the net assets at March 31, 2008

**Assets**

Current Assets	<u>\$ 55,668</u>
Non Current Assets	
Capital Assets	61,730
Less Accumulated Depreciation	<u>(9,378)</u>
Total Non Current Assets	<u>52,352</u>
Total Assets	<u>108,020</u>

**Liabilities**

Current Liabilities	<u>532</u>
---------------------	------------

**Net Assets**

Invested in Capital Assets	52,352
Unrestricted	<u>55,136</u>
Total Net Assets	<u><u>\$107,488</u></u>

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008

**D. Analysis of Financial Position**

During the fiscal year ended March 31, 2008, the Library's net assets decreased by \$1,579. A few of the more significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended March 31, 2008, \$2,554 was recorded for depreciation expense.

**E. Results of Operations**

For the fiscal year ended March 31, 2008 the results of operations were:

**General Revenues**

Investment Earnings	\$ 1,985
State Sources	20,853
Other	<u>360</u>
Other General Revenues	<u>23,198</u>

**Program Revenues**

Charges for Services	3,429
Operating Grants	<u>6,298</u>
Total Program Revenues	<u>9,727</u>
Total Revenues	<u>32,925</u>

**Expenses**

Recreation and Culture	<u>34,504</u>
Change in Net Assets	<u><u>\$ (1,579)</u></u>

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008

**F. Analysis of Significant Revenues and Expenses**

Significant revenues and expenses are discussed in the segments below:

**1. State Sources**

The majority of the state sources is comprised of penal fines received from Lake County. The Library collected \$20,113 in penal fines for 2008.

**2. Grants**

The Library funds a portion of its operations with grants and donations. For the fiscal year ended March 31, 2008, grants accounted for \$6,298 of revenues.

**G. General Fund Budgetary Highlights**

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on April 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on March 31.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Total Revenues	\$ 34,125	\$ 34,125	\$ 32,925
Total Expenditures	<u>39,210</u>	<u>42,710</u>	<u>31,950</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (5,085)</u>	<u>\$ (8,585)</u>	<u>\$ 975</u>

**H. Capital Assets**

At March 31, 2008, the Library had \$61,730 in capital assets, including equipment, furniture and fixtures, as well as buildings. Depreciation expense for the year amounted to \$2,554 bringing the accumulated depreciation to \$9,378 as of March 31, 2008.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008

**I. Factors Bearing on the Library's Future**

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from penal fines. Any impairment to these funding sources would greatly impact the future of the Library.

**J. Contacting the Library's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Luther Area Public Library, 115 State Street, Luther, Michigan 49656.



LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN  
STATEMENT OF NET ASSETS  
MARCH 31, 2008

ASSETS

CURRENT ASSETS

Cash	\$ 55,668
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NON CURRENT ASSETS

Capital Assets	61,730
----------------	--------

Less: Accumulated Depreciation	<u>(9,378)</u>
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Total Non Current Assets	<u>52,352</u>
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TOTAL ASSETS	<u><u>\$ 108,020</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Payroll Withholdings Payable	\$ 265
------------------------------	--------

Payroll Taxes Payable	<u>267</u>
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Total Liabilities	<u>532</u>
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NET ASSETS

Invested in Capital Assets	52,352
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Unrestricted	<u>55,136</u>
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Total Net Assets	<u>107,488</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 108,020</u></u>
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The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR	OPERATING	ACTIVITIES
		SERVICES	GRANTS	NET (EXPENSES)
				REVENUES AND
				CHANGE IN
				NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Recreation and Culture	\$ 34,504	\$ 3,429	\$ 6,298	\$ (24,777)
<u>GENERAL REVENUES</u>				
Investment Earnings				1,985
State Sources				20,853
Other				360
Total General Revenues				23,198
Change in Net Assets				(1,579)
<u>NET ASSETS</u> - Beginning of Year				109,067
<u>NET ASSETS</u> - End of Year				\$ 107,488

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

BALANCE SHEET

MARCH 31, 2008

ASSETS

Cash	\$ 55,668
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LIABILITIES AND FUND BALANCE

LIABILITIES

Payroll Withholdings Payable	\$ 265
Payroll Taxes Payable	267
	<hr/>
Total Liabilities	532
	<hr/>

FUND BALANCE

Unreserved	
Designated for Building Improvement	21,015
Undesignated	34,121
	<hr/>
Total Fund Balance	55,136
	<hr/>

TOTAL LIABILITIES AND  
FUND BALANCE

\$ 55,668

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The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF THE GENERAL FUND TO NET ASSETS

MARCH 31, 2008

Total General Fund Balance		\$	55,136
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the fund			
The cost of the capital assets is		\$	61,730
Accumulated depreciation is		(9,378)	52,352
			<hr/>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>107,488</u></u>

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

REVENUES

State Grants	
Library State Aid	\$ 740
Penal Fines	20,113
Contributions from Local Units	1,250
Interest and Rents	
Earnings on Investments and Deposits	1,985
Other Revenue	
Book Sales	124
Bag Sales	2,613
Donations/Grants	5,048
Copies/Fines	692
Miscellaneous	360
	<hr/>
Total Revenues	32,925
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EXPENDITURES

Recreation and Culture

Personal Services	
Salaries and Wages	
Librarians	15,278
Treasurer	600
Employee Fringe Benefits	
Medicare and Social Security	1,212
Michigan Unemployment	10
Supplies	
Books	1,856
Office Supplies	1,069
Other Services and Charges	
Utilities	3,993
Internet Connection	329
Travel	310
Insurance	988
Repairs and Maintenance	260
Contracted Services	4,683
Miscellaneous	997

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

Capital Outlay Equipment	<u>365</u>
Total Expenditures	<u>31,950</u>
Excess (Deficiency) of Revenues Over Expenditures	975
<u>FUND BALANCE</u> - Beginning of Year	<u>54,161</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 55,136</u>

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2008

Net change in General Fund Balance	\$ 975
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities.	
These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	<u>(2,554)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (1,579)</u></u>

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Luther Area Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

**A. Reporting Entity**

The Luther Area Public Library provides library services to the residents of the Luther, Michigan area from its facility located in Luther, Michigan. The Library is a legally established district library pursuant to Section 6 of Act 24 of the Public Acts of 1989. The participating municipalities include Dover Township, Ellsworth Township, Newkirk Township, and the Village of Luther. The District Library Board is made up of six appointed board members. Under the criteria established by generally accepted accounting principles, the Library has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital



LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

**Accrual Basis**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Basis**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

State aid and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**D. Assets, Liabilities and Equity**

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Site Improvements	Parking lots, flagpoles, sidewalks, fencing, outdoor lighting, sprinkling system	20
Library Building		50
HAC	Heating and air conditioning system	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical / Plumbing		30
Kitchen Equipment		15
Furniture and Accessories		15
Business Machines		10
Computer, Software and Hardware		5

The Library's capitalization policy is to capitalize individual amounts exceeding \$5,000 for land, buildings and improvements and capitalizing individual amounts exceeding \$500 for equipment and other personal property.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**A. Budgetary Information**

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Treasurer of the Library annually prepares an operating budget taking into consideration the recommendations of the board. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board from time to time throughout the year.
4. Budget appropriations lapse at the end of the fiscal year.
5. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**B. Funds with expenditures in excess of appropriations were as follows:**

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Office Supplies	\$ 1,000	\$ 1,069
Repairs	0	260
Contracted Services	2,000	4,683

These overages were funded by available fund balance.

**III. DETAILED NOTES ON GENERAL FUND**

**A. Deposits and Investments**

The Library's deposits and investments are all on deposit with Lake-Osceola State Bank of Luther, Michigan.

*Investment rate risk.* The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

*Foreign currency risk.* The Library is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

*Concentration of credit risk.* The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, none of the library's bank balance of \$55,668 was exposed to custodial credit risk because none of it was uninsured or uncollateralized.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library held no investments.

**B. Capital Assets**

A summary of changes in the Library's capital assets follows:

	Balance April 1, 2007	Additions	Deletions	Balance March 31, 2008
Capital assets:				
Buildings	\$ 40,000	\$ 0	\$ 0	\$ 40,000
Furniture and Fixtures	16,518	0	0	16,518
Equipment	5,212	0	0	5,212
Total Capital Assets	61,730	0	0	61,730
Less accumulated depreciation for:				
Buildings	2,340	720	0	3,060
Furniture and Fixtures	3,700	1,101	0	4,801
Equipment	784	733	0	1,517
Total accumulated depreciation	6,824	2,554	0	9,378
Net Capital Assets	\$ 54,906	\$ (2,554)	\$ 0	\$ 52,352

Depreciation for the fiscal year ended March 31, 2008 amounted to \$2,554.

**IV. OTHER INFORMATION**

**A. Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or three prior years.

The Library continues to carry insurance for other risks of loss, including employee health and accident insurance.

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
State Grants			
Library State Aid	\$ 1,300	\$ 1,300	\$ 740
Penal Fines	23,000	23,000	20,113
Contributions from Local Units	0	0	1,250
Interest and Rents			
Earnings on Investments and Deposits	600	600	1,985
Other Revenue			
Book Sales	300	300	124
Bag Sales	6,375	6,375	2,613
Donations/Grants	2,000	2,000	5,048
Copies/Fines	400	400	692
Miscellaneous	150	150	360
	<hr/>	<hr/>	<hr/>
Total Revenues	34,125	34,125	32,925
	<hr/>	<hr/>	<hr/>

EXPENDITURES

Recreation and Culture

Personal Services

Salaries and Wages

Librarians

16,000      18,000      15,278

Treasurer

0      0      600

Employee Fringe Benefits

Medicare and Social Security

2,500      3,000      1,212

Michigan Unemployment

15      15      10

Supplies

Books

2,000      2,000      1,856

Office Supplies

1,000      1,000      1,069

Other Services and Charges

Utilities

3,000      4,000      3,993

Internet Connection

660      660      329

Travel

400      400      310

Postage/Programming

500      500      0

Insurance

1,300      1,300      988

Dues

85      85      0

LUTHER AREA PUBLIC LIBRARY  
LUTHER, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
Education and Training	400	400	0
Repairs and Maintenance	0	0	260
Contracted Services	2,000	2,000	4,683
Miscellaneous	8,550	8,550	997
Capital Outlay			
Equipment	800	800	365
Total Expenditures	39,210	42,710	31,950
Excess (Deficiency) of Revenues Over Expenditures	(5,085)	(8,585)	975
<u>FUND BALANCE</u> - Beginning of Year	54,697	54,697	54,161
<u>FUND BALANCE</u> - End of Year	<u>\$ 49,612</u>	<u>\$ 46,112</u>	<u>\$ 55,136</u>

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
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October 23, 2008

To the Library Board  
Luther Area Public Library  
Lake County  
Luther, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Luther Area Public Library, Lake County, Luther, Michigan, as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Luther Area Public Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:



## 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Library and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

## 2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described in (1) above (Lack of Segregation of Duties) constitutes a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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October 23, 2008

To the Library Board  
Luther Area Public Library  
Lake County  
Luther, Michigan

We have audited the financial statements of the governmental activities and the major fund of Luther Area Public Library for the year ended March 31, 2008, and have issued our report thereon dated October 23, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Luther Area Public Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Luther Area Public Library are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We did propose several adjusting journal entries that were accepted and recorded by management.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 23, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Luther Area Public Library for the year ended March 31, 2008, we noted the following list of items which we feel deserve comment:

#### Budgeting

Relative to Act 621 of the Public Acts of 1978 the Uniform Accounting and Budgeting Act, the following items were noted:

1. Several items in the Library's budget exceeded budgeted amounts. The budget should always be amended prior to incurring expenditures in excess of the budgeted amounts. These amendments should be approved by the Library Board and recorded in the official minutes.

The amendments to the budget throughout the year should be clearly noted in the board minutes.

This comment is a repeated comment from the previous year.

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BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*